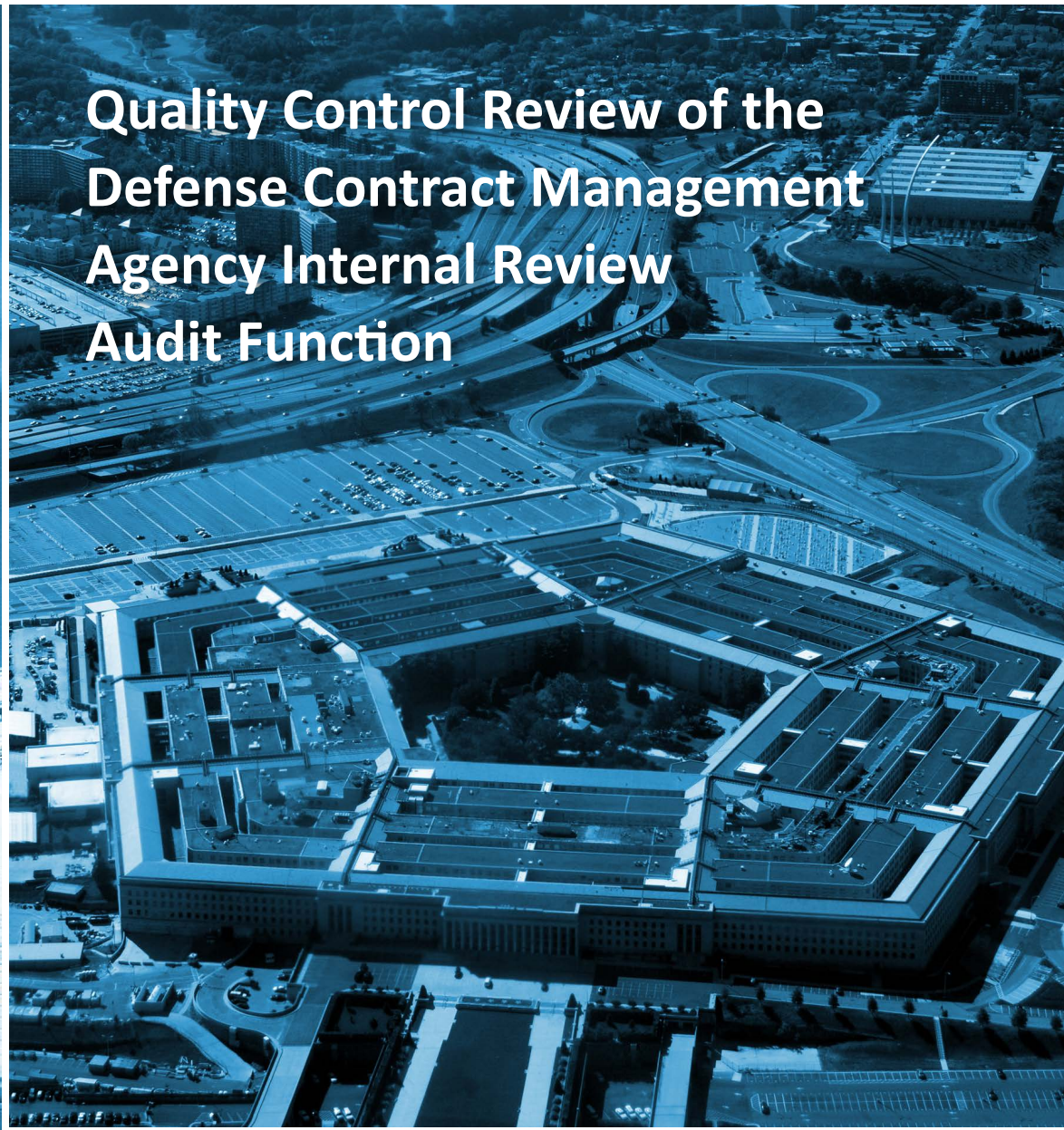




# INSPECTOR GENERAL

*Department of Defense*

APRIL 18, 2013



## Quality Control Review of the Defense Contract Management Agency Internal Review Audit Function

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

Report Documentation Page				Form Approved OMB No. 0704-0188	
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## Mission

*Our mission is to provide independent, relevant, and timely oversight of the Department that: supports the warfighter; promotes accountability, integrity, and efficiency; advises the Secretary of Defense and Congress; and informs the public.*

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INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
4800 MARK CENTER DRIVE  
ALEXANDRIA, VIRGINIA 22350-1500

MEMORANDUM FOR DIRECTOR, DEFENSE CONTRACT MANAGEMENT AGENCY

SUBJECT: Quality Control Review of the Defense Contract Management Agency Internal Review Audit Function (Report No. DoDIG

We are providing this report for your information and use. We have reviewed the Defense Contract Management Agency (DCMA) Internal Review Team's (IRT) system of quality control in effect for the period ended May 30, 2012. A system of quality control for DCMA's audit function encompasses the audit organization's leadership, emphasis on performing high quality work, and policies and procedures established to provide reasonable assurance of compliance with generally accepted government audit standards (GAGAS). The DCMA IRT is responsible for designing a system of quality control and complying with its system to provide DCMA management with reasonable assurance that its audits are performed and reported on in accordance with GAGAS in all material respects.

We conducted our review in accordance with GAGAS and guidelines established by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). We tested the DCMA's IRT organization's system of quality control to the extent we considered appropriate. GAGAS require that an audit organization performing audits or attestation engagements or both have an appropriate internal quality control system in place and undergo an external quality control review at least once every 3 years by reviewers independent of the audit organization being reviewed. An audit organization's quality control policies and procedures should be appropriately comprehensive and suitably designed to provide reasonable assurance that they meet GAGAS requirements for quality control.

Federal audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. In our opinion, the DCMA IRT organization's system of quality control for audits was suitably designed in accordance with the quality standards established by GAGAS. Accordingly, we are issuing a pass opinion on DCMA's audit organization for the period ended May 30, 2012.

In addition to reviewing its system of quality control to ensure adherence with GAGAS, we applied certain limited procedures in accordance with guidance established by the CIGIE related to DCMA IRT's monitoring of engagements performed by Independent Public Accountants (IPA) under contract where the IPA served as the principal auditor. It should be noted that monitoring of engagements performed by an IPA is not an audit and therefore, is not subject to the requirements of GAGAS. The purpose of our limited procedures was to determine whether DCMA IRT had controls to ensure the IPA performed contracted work in accordance with professional standards. However, our objective was not to express an opinion and accordingly,

we do not express an opinion on DCMA's monitoring of work performed by the IPA. Appendix A contains background, comments and observations, and recommendations for DCMA to improve its quality control system. Appendix B contains our review results of the monitoring of the independent public accountants. Appendix C contains a summary of the results of our interviews with the DCMA IRT audit staff. Appendix D contains the scope and methodology of the review.

We appreciate the courtesies extended to the staff. For additional information on this report, please contact Ms. Carolyn R. Davis at (703) 604-8877 (DSN 664-8877), or [Carolyn.Davis@dodig.mil](mailto:Carolyn.Davis@dodig.mil).

A handwritten signature in dark ink, appearing to read 'R. Stone', with a long horizontal flourish extending to the right.

Randolph R. Stone  
Deputy Inspector General  
Policy and Oversight

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## Appendix A

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### Background, Comments and Observations, and Recommendations

#### **Background**

##### *Defense Contract Management Agency*

The Defense Contract Management Agency (DCMA) is the DoD component that works directly with Defense suppliers to help ensure that DoD, Federal, and allied government supplies and services are delivered on time, at projected cost, and meet all performance requirements. As of September 30, 2012, DCMA employed 10,478 civilian and 538 military personnel, included 3 operations directorates and 46 contract management offices, and oversaw 20,296 contractors with 344,000 active contracts.

##### *DCMA Internal Review Team*

The DCMA Internal Review Team (IRT) is part of the DCMA Office of Independent Assessment. The Office reports directly to the Director of DCMA. The DCMA IRT has two primary mission components:

- conduct internal reviews (auditing) of administrative support programs, systems, and processes to include determining the adequacy of existing management controls, forming appropriate conclusions, and making applicable recommendations to the Director of DCMA and
- perform external audit liaison, coordination, and audit advisory services.

The Office consists of a supervisory auditor, one external liaison administrator, and six auditors. The DCMA IRT began performance auditing in FY 2009. The DCMA IRT published its first Audit Manual on April 30, 2010, and revised the Audit Manual on January 6, 2012.<sup>1</sup>

#### **Comments and Observations**

We are issuing a pass opinion because we determined that the system of quality control for the DCMA IRT is adequately designed and functioning as prescribed. The findings we identified during our review of the selected audit reports were not cumulatively significant enough to rise to the level of a deficiency or significant deficiency, based on our opinion and as defined by the Council of the Inspectors General on Integrity and Efficiency (CIGIE)

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<sup>1</sup> Due to the timeframe of this review, we applied the DCMA Audit Manual, April 30, 2010, for reviews of audits.



## Guide for Conducting External Peer Reviews of the Audit Organizations of Federal Offices of Inspector General (CIGIE Guide).

We judgmentally selected two reports to review for compliance with generally accepted government auditing standards (GAGAS) in nine areas: quality control, independence, professional judgment, competence, audit planning, supervision, evidence, audit documentation, and reporting. In addition, we selected one audit in which DCMA performed monitoring of an independent public accounting firm for compliance with the CIGIE Guide.

We identified five areas with findings relating to the quality control system, independence, planning, audit documentation, and quality control of audits. In addition, we made recommendations in relation to the monitoring of independent public accountants (Appendix B). The review of the monitoring of the Independent Public Accountants (IPA) does not affect the opinion of the DCMA IRT quality control review.

## Quality Control Monitoring

During the period of our review, the DCMA IRT did not have an overall plan for quality control monitoring. The DCMA IRT performed some quality control procedures to include updating sections of the Audit Manual and performing reviews of previous audits. Also, the Director, DCMA, initiated an intra-agency peer review of its internal audit mission and IRT in June 2011 because a previous review had not been done. DCMA employees who had experience as former Federal agency auditors with a working knowledge of GAGAS performed the review.

As part of the quality control monitoring, we found that a checklist was used for one review of an audit; however, for another review, only a summary of the review was provided, but the checklist supporting the review could not be located. In addition, follow-up on quality control monitoring was not performed to identify whether deficiencies found in the reviews of audits were addressed.

GAGAS 3.53<sup>2</sup> states that audit organizations should establish policies and procedures for monitoring of quality in the audit organization. Further, GAGAS 3.54 states the audit organization should analyze and summarize the results of its monitoring process at least annually with identification of any systemic or repetitive issues needing improvement, along with recommendations for corrective action.

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<sup>2</sup> The newest version of GAGAS is dated December 2011. However, for this review we were required to use the July 2007 version of GAGAS, as it covered the period of our review, October 1, 2010, to May 30, 2012.

The DCMA Audit Manual, chapter 1, section 1.3, dated April 30, 2010, states that the DCMA IRT adopted the Comptroller General auditing standards that include general standards as well as fieldwork standards and reporting standards for financial and performance audits. The DCMA Audit Manual, chapter 1, section 1.3, dated January 6, 2012, reiterates the same statement from the 2010 version. The DCMA IRT Audit Manual, chapter 3, section 3.2, II (c), dated January 6, 2012, states the supervisory auditors and the executive director are responsible for monitoring audit progress to ensure that auditors exercise professional judgment, work is being conducted in accordance with GAGAS and DCMA policies and procedures, and audit findings and conclusions are adequately supported. However, this statement is addressed in the context of supervision of an audit and not as part of the overall monitoring of quality control.

## **Recommendations, Comments, and Response**

### ***A.1 Recommendation***

We recommend that the Director, DCMA:

Update the DCMA IRT Audit Manual to include policies and procedures for monitoring quality in the audit organization at least annually.

### ***A.1 Management Comments***

The Director, DCMA concurred. The DCMA IRT Audit Manual is being revised to include the policies and procedures for annual monitoring of quality control. DCMA IRT plans to review all completed audits for compliance with GAGAS. The results will be summarized and communicated to all Auditors.

### ***A.1 Our Response***

DCMA comments were responsive. No additional comments are needed.

#### ***A.1.a Recommendation***

Prepare a 2-year plan for performing annual quality control reviews and monitor the progress of the quality control plan.

### ***A.1.a Management Comments***

The Director, DCMA concurred. DCMA will develop a 2-year plan by May 31, 2013, that will include monitoring of all audits within one year of completion and reviewing and updating the IRT Audit Manual every two years. DCMA plans to use CIGIE checklists and an internally developed checklist to aid in identifying deficiencies and other areas on noncompliance.

### ***A.1.a Our Response***

DCMA comments were responsive. No additional comments are needed.

### ***A.1.b Recommendation***

Ensure that the documentation of quality control reviews is maintained so that they are readily available for review.

### ***A.1.b Management Comments***

The Director, DCMA concurred. DCMA IRT will place documentation on the IRT Portal which is electronically accessible to only IRT auditors at the completion of each review.

### ***A.1.b Our Response***

DCMA comments were responsive. No additional comments are needed.

### ***A.1.c Recommendation***

Track and monitor the progress of deficiencies found in the quality control reviews.

### ***A.1.c Management Comments***

The Director, DCMA concurred. DCMA IRT will determine the cause of deficiencies and take efforts to ensure they are not repeated. DCMA IRT will place a sheet with each area of noncompliance on the IRT Portal and will include a summary of corrective actions and its progress. The tracking sheet will be placed on the IRT portal by May 31, 2013.

### ***A.1.c Our Response***

DCMA comments were responsive. No additional comments are needed.

## Independence

For two audits, Report No. DCMA-DMI-2010-001, “Audit of DCMA Training Management Processes,” August 20, 2010, and Report No. DCMA-DMI-2011-001, “Audit of DCMA Telework Program,” November 29, 2011, we identified issues with independence. For the Audit of DCMA Telework Program, the DCMA IRT relied on the work of a specialist while performing the audit. However, there was no evidence or audit documentation to show that the DCMA IRT assessed the independence of the specialist.

GAGAS 3.05 states that when auditors use the work of a specialist, auditors should assess the specialist’s ability to perform the work and report results impartially as it relates to their relationship with the program or entity under audit. If the specialist’s independence is impaired, auditors should not use the work of that specialist.

The DCMA Audit Manual dated April 30, 2010, did not have policy to address independence, and specifically did not have policy to address the independence of specialist at the time this audit was performed. In addition, the DCMA IRT Audit Manual dated April 30, 2010, chapter 1, section 1.3, does not specifically address the independence standard, but states that the DCMA IRT adopted the Comptroller General auditing standards that include general standards as well as fieldwork standards for financial and reporting standards.

However, the DCMA IRT Audit Manual, chapter 1, section 1.8 (c), dated January 6, 2012, states that when relying on the work of nonauditors (consultants, experts, specialists, etc., other than those hired to assist in the audit), IRT auditors should be satisfied as to the nonauditors professional reputation, qualifications, and independence from the organization, program, activity, or function being audited. This new policy addresses independence, and this section of the policy meets GAGAS requirements that DCMA IRT auditors should assess specialists or nonauditors independence and qualifications.

Also, for the DCMA Training Management Processes Audit, the supervisory auditor did not have an independence statement documented in the audit working papers. GAGAS 3.07 states that auditors participating in an audit assignment must be free from personal impairments to independence.

The DCMA Audit Manual, dated April 30, 2010, does not have a specific policy to address the independence of audit personnel; however, the Audit Manual’s Appendix A is an independence statement form. Further, the DCMA Audit Manual, chapter 1, section 1.5, dated January 6, 2012, states that the IRT and its staff, including contracted audit

services personnel are required to (i) be free from personal and external impairments to independence, (ii) be organizationally independent, (iii) maintain an independent attitude and appearance in all matters relating to audit work, and (iv) complete the statement of independence form.

## ***A.2 Recommendation***

We recommend that the Director, DCMA:

Assess the independence of any specialists or nonauditors tasked to perform work on an audit assignment and document the assessment in the audit files.

## ***A.2 Management Comments***

The Director, DCMA concurred. DCMA IRT will require all personnel who perform work on an audit assignment to complete a Statement of Independence form. DCMA IRT plans to incorporate this requirement in the revised IRT Audit Manual by March 31, 2013.

## ***A.2 Our Response***

DCMA comments were responsive. No additional comments are needed.

### ***A.2.a Recommendation***

Require the supervisory auditor to prepare an independence statement and include it with the audit documentation to correspond to the DCMA IRT January 2012 Audit Manual requirements.

### ***A.2.a Management Comments***

The Director, DCMA concurred. The supervisory auditor will prepare an independence statement for all audits. DCMA IRT plans to include this requirement on the internally developed checklist for monitoring of completed audits to ensure compliance.

### ***A.2.a Our Response***

DCMA comments were responsive. No additional comments are needed.

## Planning

For two audits, Audit of DCMA Training Management Processes and Audit of DCMA Telework Program, we identified issues with audit planning. Specifically, we found that both audits did not include documentation of risk of fraud during audit planning. In addition, for one of the audits reviewed, steps to the audit program had been added without obtaining supervisory approval.

GAGAS 7.30 requires auditors to assess risks of fraud occurring that are significant within the context of the audit objectives. The DCMA Audit Manual, section 3.15, IV, dated April 30, 2010, states that while reviewing controls, the auditor must be alert to situations or transactions that could be indicative of fraud.

DCMA Audit Manual, chapter 2, section III, (c) (2), dated January 6, 2012, states that consistent with the audit objective, the lead auditor will design audit steps to assess compliance with relevant laws and regulations and to provide reasonable assurance of detecting fraud, abuse, or other illegal acts. For both audits reviewed, we did not identify any working papers supporting that an assessment of fraud risks had been performed during audit planning.

For the audit of the DCMA Telework Program, steps were added to the audit program to include sampling methodology after the supervisor had approved the audit program. The steps were handwritten into the audit program; therefore, it was difficult to determine whether the supervisor approved the audit steps.

GAGAS 7.51 states that a written audit plan provides an opportunity for the audit organization management to supervise audit planning and to determine whether:

- the proposed audit objectives are likely to result in a useful report,
- the audit plan adequately addresses relevant risks, and
- the proposed audit scope and methodology are adequate to address the audit objectives.

The DCMA Audit Manual, chapter 2, section 2.3, I (a and b), dated April 30, 2010, states that the supervisory auditor, as a second-level supervisor will approve overall objectives and audit programs, monitor audit programs and performance, and approve requests for deviation from the approved project plan.



The DCMA Audit Manual, chapter 4, section 4.2, II (e), dated January 6, 2012, states that the supervisory auditor will approve any changes made to the audit program during execution.

### ***A.3 Recommendation***

We recommend that the Director, DCMA, issue a memorandum to remind DCMA IRT staff to adhere to GAGAS requirements to perform and document fraud risks during audit planning, and obtain supervisory review and approval when audit programs are updated.

### ***A.3 Management Comments***

The Director, DCMA concurred. The Director, DCMA issued a memorandum on March 11, 2013, to remind the DCMA IRT audit staff to include fraud risks in the planning phase of the audit.

### ***A.3 Our Response***

DCMA comments were responsive. No additional comments are needed.

## **Audit Documentation**

For the Audit of DCMA Telework Program, the audit documentation was not sufficient to identify why part of the initial scope of the review was dropped for review during the audit.

GAGAS 7.77 states that auditors must prepare audit documentation related to planning, conducting, and reporting for each audit. Further, auditors should prepare audit documentation in sufficient detail to enable an experienced auditor, having no previous connection to the audit, to understand from the audit documentation the nature, timing, extent, and results of audit procedures performed; the audit evidence obtained and its source; and the conclusions reached, including evidence that supports the auditors' significant judgments and conclusions.

DCMA Audit Manual, chapter 4, section 4.4, II (c) (1), dated April 30, 2010, states that neatness and clarity are essential elements of all working papers to develop meaningful and understandable exhibits and schedules.

For the Audit of the DCMA Telework Program, the original scope included reviewing FY 2009 data; however, the audit documentation did not clearly identify why the data were not reviewed. The auditors prepared a working paper identifying why some FY 2010 data were not able to be reviewed, but they did not address in the working paper or in other documentation why the FY 2009 data were not reviewed.

#### ***A.4 Recommendation***

We recommend that the Director, DCMA, issue a memorandum to remind DCMA IRT staff to adhere to GAGAS for preparing audit documentation in a clear and concise manner with sufficient detail to support the report.

#### ***A.4 Management Comments***

The Director, DCMA concurred. The Director, DCMA issued a memorandum on March 11, 2013, to remind DCMA IRT audit staff to adhere to GAGAS when preparing audit documentation.

#### ***A.4 Our Response***

DCMA comments were responsive. No additional comments are needed.

### **Quality Control**

In some instances, the supporting audit documentation for the Audit of DCMA Telework Program and the Audit of DCMA Training Management Processes was difficult to locate in the working papers. In addition, audit documentation for the Audit of DCMA Telework Program did not show whether the auditor addressed the independent referencer reviewer's comments for accuracy of the report. Although we located support for the audit reports, improvement in referencing and documenting changes made from reviewer comments was needed.

GAGAS 7.79 states that audit documentation is an essential element of audit quality. The process of preparing and reviewing audit documentation contributes to the quality of an audit. Audit documentation serves to provide the principal support for the auditors' report, aid auditors in conducting and supervising the audit, and allow for the review of audit quality.

The DCMA Audit Manual, chapter 5, section II, 5.8(f) (3), dated April 30, 2010, states that when the review is independently referenced, the auditor will respond to each referencing note indicating agreement or disagreement and specify the actions that have been taken or will be taken to correct the discrepancy.

### ***A.5 Recommendation***

We recommend that the Director, DCMA, issued a memorandum to remind DCMA IRT staff to comply with the DCMA IRT Audit Manual to independently reference audit reports and ensure that the referencer's comments or concerns are addressed and documented before report issuance.

### ***A.5 Management Comments***

The Director, DCMA concurred. The Director, DCMA issued a memorandum on March 11, 2013, to remind DCMA IRT audit staff to independently reference audit reports and ensure that the referencer's comments or concerns are addressed and documented before report issuance.

### ***A.5 Our Response***

DCMA comments were responsive. No additional comments are needed.

## Appendix B

### Monitoring of Independent Public Accountants

We reviewed the DCMA IRT monitoring of audit work performed by an Independent Public Accountant (IPA) for Report No. DCMA-DMI-2012, "Review of the DCMA's Use of the Defense Travel System," May 24, 2012. While the monitoring of the IPA was not subject to GAGAS, we reviewed one of the engagements as it was a significant part of the DCMA's internal review activities.

We identified the following deficiencies:

- The DCMA IRT did not have a plan or oversight policy in place for reviewing the contracts. The auditors did take appropriate steps in monitoring the contract, such as reviewing deliverables and ensuring that the deliverables were obtained in accordance with the terms of the contract, but a plan was not in place to ensure that the auditors followed appropriate steps for monitoring.
- An auditor was added to the contract after award without an assessment of qualifications. The audit team should obtain information on all auditors assigned to the audit to ensure that they are independent and qualified.
- The auditors had a copy of the last peer review upon contract award, but the peer review was almost 3 years old and they did not obtain or ask for the annual summary of results of its monitoring procedures. The CIGIE Appendix F states that for peer review reports older than 1 year, the auditors may also consider obtaining additional information about the IPA's system of quality control; for example, the IPA's annual summary of the results of its monitoring procedures. When the contract was awarded in 2011, the last peer review was dated December 1, 2008.
- The auditors did not put a copy of the finalized report in the TeamMate<sup>3</sup> file. The auditors should document information for the contract to include the final report.

<sup>3</sup> TeamMate is the electronic audit management system that DCMA IRT uses to prepare and store their working papers, findings, documentation supporting analysis and conclusions, and audit reports. Additional TeamMate information can be found at [www.cchteammate.com](http://www.cchteammate.com).

## ***B.1 Recommendation***

We recommend that the Director, DCMA:

Prepare a comprehensive plan for overseeing contracted auditing services. The plan should document the oversight review, the level of review, oversight strategies, and monitoring procedures.

## ***B.1 Management Comments***

The Director, DCMA concurred. DCMA IRT will develop a comprehensive plan for overseeing contracted audit services and include procedures from DOD IG's Report No. D-2009-6-003, "Key Strategies and Practices for Oversight of DOD Contracted Audit Services," March 3, 2009. DCMA IRT will include the plan in the revised IRT Audit Manual by March 31, 2013.

## ***B.1 Our Response***

DCMA comments were responsive. No additional comments are needed.

### ***B.1.a Recommendation***

Ensure oversight procedures include obtaining the latest quality control report prior to awarding the contract.

### ***B.1.a Management Comments***

The Director, DCMA concurred. DCMA IRT will ensure that latest quality control report is used prior to awarding a contract for audit services. DCMA IRT plans to include this procedure in the revised IRT Audit Manual by March 31, 2013.

### ***B.1.a Our Response***

DCMA comments were responsive. No additional comments are needed.

***B.1.b Recommendation***

Continually monitor, assess, and document the qualifications of the audit staff assigned to the audit to make sure that the GAGAS competency standard is followed.

***B.1.b Management Comments***

The Director, DCMA concurred. DCMA IRT plans that the COTR (Contracting Officer's Technical Representative) will request and determine if the new auditors assigned to the contract are qualified to be on the audit team. DCMA IRT plans to include this procedure in the revised IRT Audit Manual.

***B.1.b Our Response***

DCMA comments were responsive. No additional comments are needed.



## Appendix C

### Summary of Interview Results Relating to DCMA Audit Policies and GAGAS

We interviewed the DCMA IRT supervisory auditor and five staff members to determine their knowledge of DCMA audit policies and GAGAS. The interviews consisted of questions related to the DCMA IRT audit policies and GAGAS general, fieldwork, and reporting standards. The following table contains a summary of the results of the responses received.

Areas Pertaining to DCMA Office of Internal Audit Policies and GAGAS Standards	Staff Responses to Questions
Awareness of DCMA IRT Policies	All staff stated they were aware of the audit policies.
Compliance with GAGAS	All staff stated that their work complied with GAGAS standards.
Independence	Several of the audit staff expressed concerns with organizational independence. We reviewed those concerns and determined that an organizational independence impairment did not exist.
Competence	Staff responses indicated that the competency requirement was fulfilled. Several audit staff expressed concern about audit qualifications and meeting continuing professional education requirements for audit management. We reviewed those concerns and determined continuing professional education requirements were met.
Quality Control and Assurance	Staff members were knowledgeable about quality control and assurance procedures.
Planning (Key Decisions)	Staff involved with planning stated that they documented key decisions.
Planning (Fraud)	Staff involved with audit planning stated that they were preparing fraud assessment working papers on the newer audits.
Supervision	All staff stated that they received or provided adequate supervision.
Audit Documentation	All staff stated that the audit documentation was adequate.
Evidence	The staff stated that the evidence was adequate.
Reporting (Timeliness)	The audit staff stated that the reports had quick turnaround times for completion and were timely.

## Appendix D

### Scope and Methodology

We reviewed the adequacy of the DCMA IRT compliance with quality policies, procedures, and standards. In performing our review, we considered the requirements of quality control standards contained in the July 2007 Revision of GAGAS issued by the Comptroller General of the United States. GAGAS 3.56 states:

The audit organization should obtain an external peer review sufficient in scope to provide a reasonable basis for determining whether, for the period under review, the reviewed audit organization's system of quality control was suitably designed and whether the audit organization is complying with its quality control in order to provide the audit organization with reasonable assurance of conforming with applicable professional standards.

We performed this review from April 2012 to October 2012 in accordance with standards and guidelines established in the March 2009 CIGIE Guide for Conducting External Peer Reviews of the Audit Organizations of Federal Offices of Inspector General. We performed this review in accordance with the Quality Standards for Inspections and Evaluations. In performing this review, we assessed, reviewed, and evaluated audit documentation; interviewed DCMA IRT auditors, and reviewed DCMA IRT policies that were published on April 30, 2010, and January 6, 2012.

We judgmentally selected three reports from a universe of five reports issued by the DCMA IRT during the period of October 1, 2010, to May 30, 2012. In selecting reports, we worked with the DCMA IRT to establish the universe of reports that were issued during the review period. We then selected audits that were more recent to review the most current quality assurance procedures being used, and we chose a variety of audits to ensure we reviewed multiple types of projects.

The following table identifies the specific reports reviewed. The Type of Review column contains information that was determined by the report GAGAS compliance statement and/or the type of review described in the final report.

Report Number	Report Title and Issue Date	Type of Review
DCMA-DMI-2011-001	Audit of DCMA Telework Program, November 29, 2011	Performance
DCMA-DMI-2010-001	Audit of DCMA Training Management Processes, August 20, 2010	Performance
DCMA-DMI-2012-2	Review of the DCMA's Use of the Defense Travel System, May 24, 2012	Contract

Our review would not necessarily disclose all weaknesses in the system of quality control or all instances of noncompliance because we based our review on selective tests. There are inherent limitations in considering the potential effectiveness of any quality control system. In performing most control procedures, departures can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other human factors. Projecting any evaluation of a quality control system into the future is subject to the risk that one or more procedures may become inadequate because conditions may change or the degree of compliance with procedures may deteriorate.

## Comments

### Defense Contract Management Agency

**DEFENSE CONTRACT MANAGEMENT AGENCY**

3901 A AVENUE, BUILDING 10500  
FORT LEE, VIRGINIA 23801-1809


MAR 12 2013

MEMORANDUM FOR DEPARTMENT OF DEFENSE, OFFICE OF INSPECTOR  
GENERAL, DEPUTY INSPECTOR GENERAL, POLICY AND  
OVERSIGHT

SUBJECT: Quality Control Review of the Defense Contract Management Agency Internal  
Review Audit Function (Project No. 2012-DIP0AI-0138.000)

This is in response to your February 12, 2013 report on Quality Control Review for the  
Defense Contract Management Agency Internal Review Audit Function. Attached are the  
management comments to address the recommendations.

Please direct any comments or questions to Ms. Diana P. Graff, Executive Director, Office  
of Independent Assessment, (804) 734-2597, [Diana.Graff@dcma.mil](mailto:Diana.Graff@dcma.mil).

  
Charlie E. Williams, Jr.  
Director

Attachments:  
As stated

Cc:  
USD(AT&L)  
ASD(A)

**DCMA Comments to DODIG Quality Control Review of the  
Defense Contract Management Agency Internal Review Audit  
Function (DODIG Audit Report No. 2012-DIP0AI-0138.000)**

**Recommendations**

We recommend that the Director, DCMA:

1. Update the DCMA IRT Audit Manual to include policies and procedures for monitoring quality in the audit organization at least annually.

**DCMA Comments:** Concur. The DCMA IRT Audit Manual is being revised and will include policies and procedures for annual monitoring of quality control. All completed audits will be reviewed to determine compliance with Government Auditing Standards and the IRT Audit Manual. Results will be summarized, systemic or repetitive issues identified, and communicated to all Auditors. The manual is expected to be completed by March 31, 2013.

2. Prepare a 2-year plan for performing annual quality control reviews and monitor the progress of the quality control plan.

**DCMA Comments:** Concur. A 2-year plan is being developed and will include monitoring of all audits within one year of completion and reviewing and updating the IRT Audit Manual every two years. The CIGIE checklist and an internally developed checklist will be used to aid in identifying deficiencies and other areas of noncompliance. The plan, completed checklist, and summary of monitoring will be placed on the IRT Portal near the Annual Audit Plan. The monitoring plan will be reviewed annually in conjunction with development of the Audit Plan. Estimated completion of the monitoring plan is May 31, 2013.

3. Ensure that the documentation of quality control reviews is maintained so that they are readily available for review.

**DCMA Comments:** Concur. At the completion of each review, documentation will be placed on the IRT Portal which is electronically accessible to only IRT auditors.

4. Track and monitor the progress of deficiencies found in the quality control reviews.

**DCMA Comments:** Concur. As deficiencies are identified, the cause will be determined and efforts taken to ensure they are not repeated. A sheet with each area of noncompliance will be placed on the IRT Portal and will include a summary of corrective actions and its progress. The Tracking sheet will be placed on the IRT Portal by May 31, 2013.

5. Assess the independence of any specialists or nonauditors tasked to perform work on an audit assignment and document the assessment in the audit files.

**DCMA Comments to DODIG Quality Control Review of the Defense Contract Management Agency Internal Review Audit Function (DODIG Audit Report No. 2012-DIP0AI-0138.000)**

**DCMA Comments:** Concur. IRT will require all personnel who perform work on an audit assignment to complete a Statement of Independence form. The revised IRT Audit Manual will include this requirement. Estimated completion of the Manual is May 31, 2013.

6. Require the supervisory auditor to prepare an independence statement and include it with the audit documentation to correspond to the DCMA IRT January 2012 Audit Manual requirements.

**DCMA Comments:** Concur. The supervisory auditor will prepare an independence statement for all audits. To ensure compliance, this will be included on the internally developed checklist for monitoring of completed audits.

7. We recommend that the Director, DCMA, issue a memorandum to remind DCMA IRT staff to adhere to GAGAS requirements to perform and document fraud risks during audit planning, and obtain supervisory review and approval when audit programs are updated.

**DCMA Comments:** Concur. A memorandum signed by me on March 11, 2013 reminds IRT staff to include fraud risks in the planning phase of the audit. IRT has begun documenting fraud risks during the planning phase of their audits.

8. We recommend that the Director, DCMA, issue a memorandum to remind DCMA IRT staff to adhere to GAGAS for preparing audit documentation in a clear and concise manner with sufficient detail to support the report.

**DCMA Comments:** Concur. A memorandum signed by me on March 11, 2013 reminds Auditors to adhere to GAGAS when preparing audit documentation.

9. We recommend that the Director, DCMA, issue a memorandum to remind DCMA IRT staff to comply with the DCMA IRT Audit Manual to independently reference audit reports and ensure that the referencer's comments or concerns are addressed and documented before report issuance.

**DCMA Comments:** Concur. A memorandum signed by me on March 11, 2013 reminds IRT staff to independently reference audit reports and ensure referencer's comments/concerns are addressed and documented prior to report issuance.

10. Prepare a comprehensive plan for overseeing contracted auditing services. The plan should document the oversight review, the level of review, oversight strategies, and monitoring procedures.



**DCMA Comments to DODIG Quality Control Review of the  
Defense Contract Management Agency Internal Review Audit  
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**DCMA Comments:** Concur. A comprehensive plan for overseeing contracted auditing services is being developed and will include procedures that are in DoD IG's report on "Key Strategies and Practices for Oversight of DoD Contracted Audit Services". The plan will be included in the revised IRT Audit Manual which is estimated to be completed by March 31, 2013.

11. Ensure oversight procedures include obtaining the latest quality control report prior to awarding the contract.

**DCMA Comments:** Concur. IRT will ensure the latest quality control report is used prior to awarding a contract for audit services. This procedure will be included in the revised IRT Audit Manual which is estimated to be completed by March 31, 2013.

12. Continually monitor, assess, and document the qualifications of the audit staff assigned to the audit to make sure that the GAGAS competency standard is followed.

**DCMA Comments:** Concur. The qualification of audit staff is determined during the source selection process. As new Auditors are assigned to the contract, the COTR will request and determine if they are qualified to be on the audit team. This procedure will be included in the revised IRT Audit Manual which is estimated to be completed by March 31, 2013.

## ***Acronyms and Abbreviations***

<b>CIGIE</b>	Council of the Inspectors General on Integrity and Efficiency
<b>DCMA</b>	Defense Contract Management Agency
<b>GAGAS</b>	Generally Accepted Government Audit Standards
<b>IPA</b>	Independent Public Accountants
<b>IRT</b>	Internal Review Team



# **Whistleblower Protection**

## **U.S. DEPARTMENT OF DEFENSE**

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